HOUSING MARKET OUTLOOK
Greater Toronto Area

CANADA MORTGAGE AND HOUSING CORPORATION

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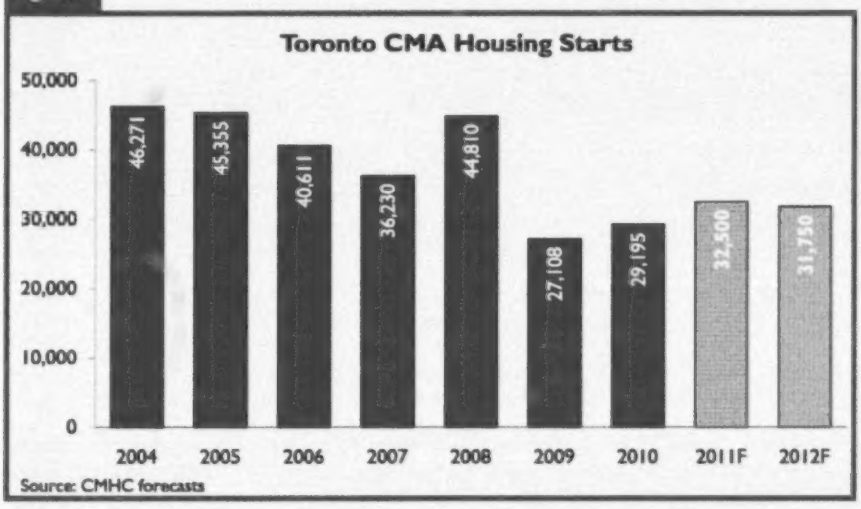
Market at a Glance

- MLS® sales and price growth in 2011 will be propped up by a strong first half, but are expected to moderate in the second half of the year before regaining momentum in 2012.
- Total MLS® sales in the GTA will reach 86,000 units this year and maintain that level in 2012. Average price growth for 2011 will be 4.3 per cent with slower appreciation in store for next year.
- Housing starts in the Toronto CMA will rise by 11 per cent this year to 32,500 units. Apartment starts will experience a sharp rebound from 2010 and hold that strength into 2012. Low-rise housing starts will move lower in the second half of the year and restrain growth in overall housing construction in 2012.

Figure 1



[1] The forecasts included in this document are based on information available as of April 28, 2011.

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Resale Market

More Listings and Low Rates Will Keep the Market Stable

Existing home sales in the Greater Toronto Area are expected to moderate in the second half of this year after a strong start. Similar to last year, sales activity in 2011 will be front-loaded and drift lower as the year progresses. New mortgage rule changes and expectations of higher interest rates have accelerated the timing of purchases into the latter part of 2010 and early 2011. However, gradually increasing borrowing rates and slower price growth will limit increases in mortgage carrying costs and provide support for sales as the market settles. By next year, a stronger economy and further increases in immigration will lead activity to begin trending higher again.

To some extent, the strength in home sales in the GTA going forward will depend upon the degree to which existing owners put their homes on the market. Should current favourable conditions for sellers bring about more listings as expected, the instance of multiple offer situations will fade. Anecdotal information from realtors indicates that "buyer fatigue" is high and many buyers are choosing not to make offers in the fear of having to enter a bidding war. By the second half of this year, new listings should begin to follow the past strength in housing price appreciation and trend higher. This will shore up some demand waiting on the sidelines and contribute to stable sales levels. Sales volatility should also begin to even out as buyers feel less pressure to make a decision.

A more balanced resale market can be expected as listings grow in the face of somewhat slower sales later this year as borrowing costs begin to rise. The relationship between home sales and interest rates has strengthened, as evidenced by an elevated ratio of the number of mortgages to full-time employment. Since sales and first-time buyer demand have become so closely linked to low interest rates, incremental increases in mortgage carrying costs will have some impact on the market. This is especially the case when considering the current state of affordability. Strong price appreciation and changes in the mortgage market have increased the required income to purchase the average priced home in the GTA by 11 per cent this year. While required income is still below actual average household income, the gap has narrowed considerably compared to the past several years. So as borrowing costs begin to move higher, more price-sensitive buyers will have to weigh a few options: delay their purchase by saving for a larger down payment, wait for their income to rise, or consider a less expensive home. The latter option is expected to result in relatively better sales performance for condominiums.

At the other end of the buying spectrum, the share of high end homes sold in the market is likely to stay elevated. Through the first four months of 2011, one-in-eight houses sold for above $750,000 and one-in-twelve condos sold for over $500,000. The factors driving high-end sales — a rising number of wealthy immigrants, a large share of high income-earners, downsizing (but not downgrading) empty-nesters, and homeowners with substantial amounts of home equity — are expected to remain. This will continue to have the effect of propping up average selling price statistics, although more balanced market conditions in general will decelerate price growth closer to the rate of inflation later this year.

Figure 2

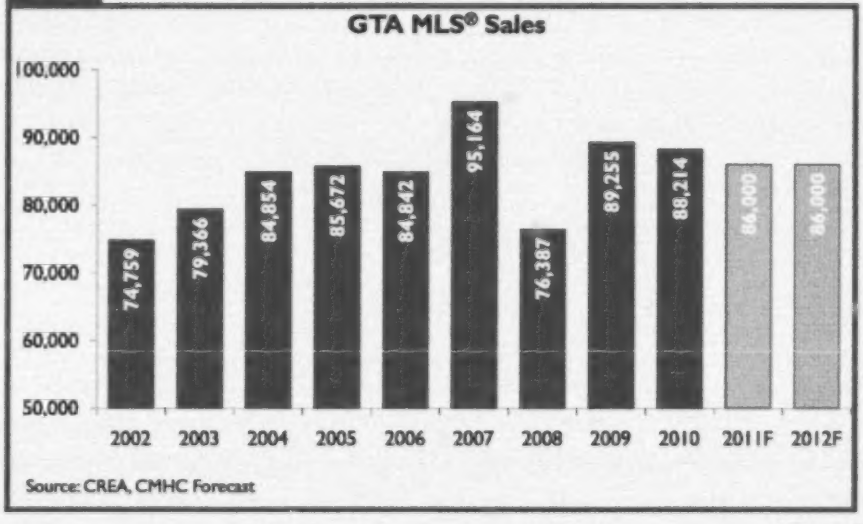
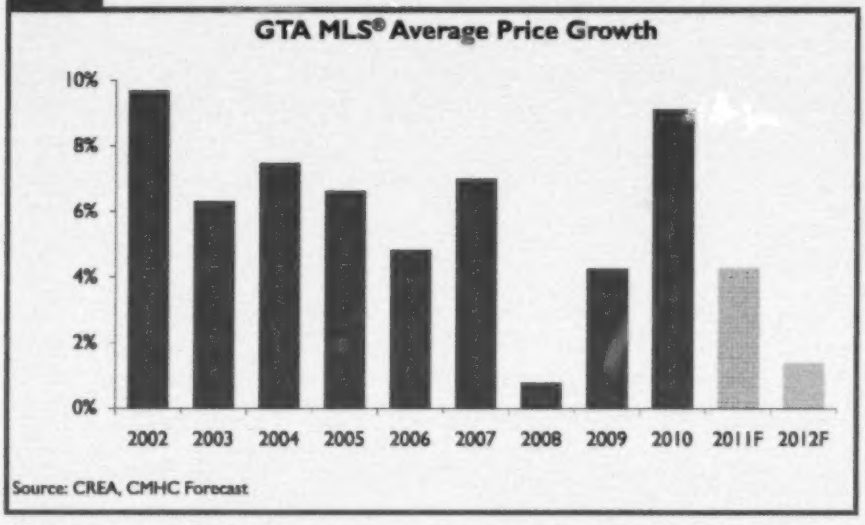


Figure 3



New Home Market

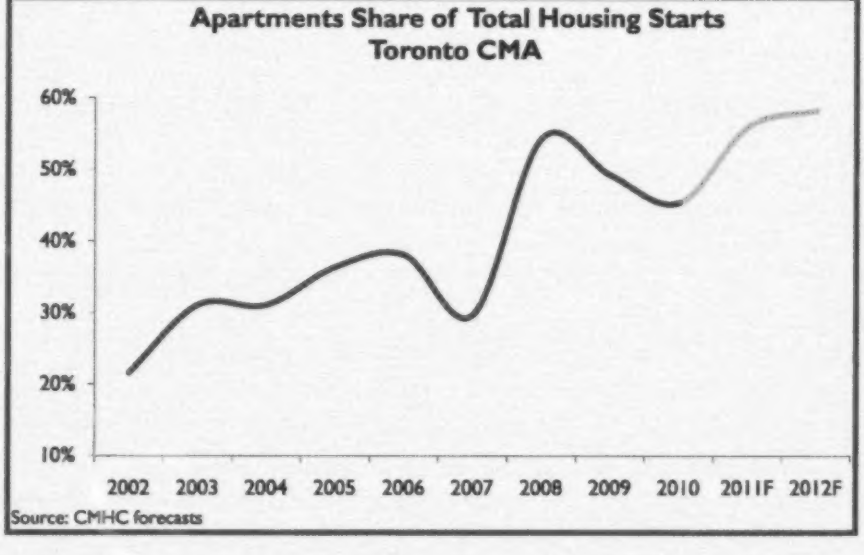
Condos Sales to Pull Back but Continue to Drive Construction Activity

A slower pace for new home sales and construction is expected for the second half of 2011. High-rise condominium sales and starts have been running at peak levels that are unsustainable for the rest of the year. The moderation in high-rise construction activity, however, will be short-lived as the recent strength in pre-construction sales drives condo starts back up in 2012. Single-detached starts will ultimately resume their longer-term downward trend for much of the projection period. The construction of row homes is expected to pick up some of the slack left behind by singles next year.

Sales for new condominiums have begun the year with such strength that should current rates hold, the sales total for 2011 would break the previous annual record by over 30 per cent. That in mind, it isn't unrealistic to expect a pull-back — particularly since the share of investor purchases is believed to be above-average, which tends to temporarily drive up sales. Demand is expected to moderate as current prices have made it difficult for an investor to expect to cover his or her holding costs in the rental market. The average 650 square foot unit purchased today with a 20 per cent deposit would result in monthly carrying costs of about $1,900 when the unit is finished in a few years. According to CMHC's Fall 2010 Rental Market Report, the average one-bedroom rents for about $1,400 a month. As a result, investors with minimum deposits and longer time-horizons will shift more into the resale market where prices are about $100 per square foot lower on average. Softer pre-construction sales in the second half of this year will begin to slow condo starts towards the end of next year. In the meantime, high rise starts will remain buoyant due to the large volume of projects opened over the past 18 months.

The expected slowdown in new condo sales will overlap with developers' plans to open record numbers of new units. As a result, unsold inventories at pre-construction sales sites are likely to move higher. The extent to which this occurs will depend upon developers' willingness to adapt to changing market conditions by limiting future project openings and/or becoming more competitive in their pricing strategy.

Figure 4



Meanwhile, builders of single-family homes are constrained by limited sites to develop new housing projects. Land available for development within 30 minutes of major transportation access has steadily declined over the past decade. This is becoming a larger issue as overall commuting times in the GTA continue to rise along with fuel prices. Furthermore, the areas of the GTA that have been driving low rise activity — Brampton and York Region — face restraints from further outward expansion due to capacity issues. As options for supply are pushed away from the city, the market for single detached homes will continue to be better served in the resale market. Just 4,500 single-detached homes were unsold and ready for development at the end of the first quarter, with one-third located in the relatively slower Durham market[1]. In contrast, active resale listings for detached homes were twice that amount and much more evenly distributed with close to a quarter within the city of Toronto limits. There is also a 10 per cent price premium on new versus resale singles that is expected grow further, reflecting the rising cost of land and development and also the size of new singles constructed in recent years. Although the market for higher-end homes is expected to remain stable (see Resale section), the supply limitations for new singles will continue to weigh on overall construction volumes.

Local Economy

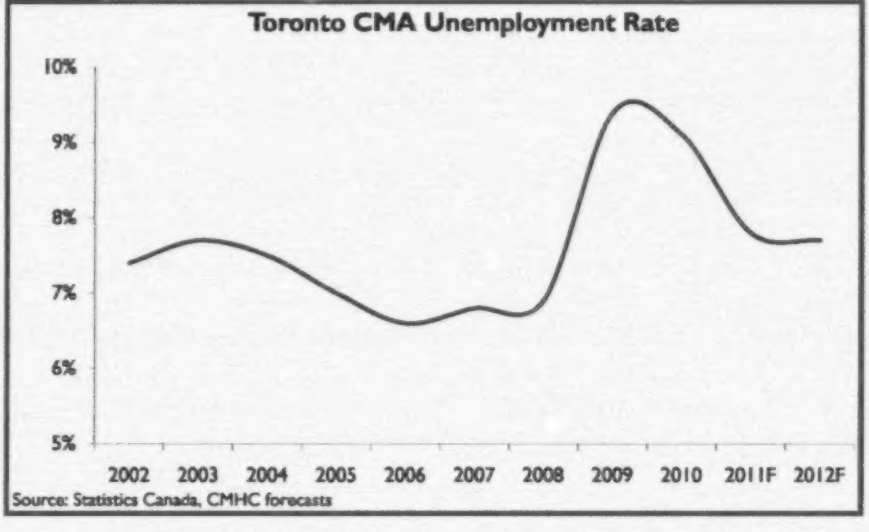
Labour Market Continuing on the Path Towards Full Recovery

Continued improvement in labour market conditions are expected to underpin the housing market throughout 2011 and help offset the negative pull of rising interest rates. It's true that the number of employed people has surpassed the pre-recession mark, acting as a boon for the market thus far. Yet the employment situation for many younger households — who tend to drive purchases — is still very much in the recovery phase and is not likely to drive activity higher until next year.

Only 40 per cent of the employment losses suffered amongst the 25 to 44 age group have been recovered. Furthermore, job growth amongst this group has been sluggish in the opening months of 2011 while the ratio of part-time to full-time work remains elevated. It appears that much of the recent weakness in job growth has come from losses in the accommodation and food services industry, which has likely been affected by reduced visits and spending from the U.S. due to the high Canadian dollar. However, this sector should show improvement next year as the U.S. economic recovery makes more significant inroads. This will also benefit the region's manufacturing base, which exports most of its goods to the US.

In fact, the future looks bright for the labour market in Toronto. The strength in business investment will lead to gains in productivity and greater demand for skilled and higher-

Figure 5



Source: Statistics Canada, CMHC forecasts

[1] Based on remaining inventory data supplied by RealNet Canada Inc. (www.realnet.ca)

paid workers. Steady employment growth will also eventually bring the unemployment rate down below eight per cent this year and raise income growth above two per cent for the first time since 2008. Once labour market conditions for younger households return to what was considered normal prior to the recession, the effect on housing demand will materialize. It's also important to consider the rise in immigration witnessed in 2010, as some will begin transitioning into the ownership market next year.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short-term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Toronto CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	76,387	89,255	88,214	86,000	-2.5	86,000	0.0
MLS® New Listings	163,169	136,096	154,167	146,000	-5.3	157,000	7.5
MLS® Average Price ($)	379,943	396,154	432,264	451,000	4.3	457,500	1.4
New Home Market							
Starts:							
Single-Detached	11,308	8,130	9,936	8,500	-14.5	7,300	-14.1
Multiples	30,904	17,819	19,259	24,000	24.6	24,450	1.9
Semi-Detached	2,362	2,032	1,654	1,800	8.8	1,650	-8.3
Row/Townhouse	4,612	2,918	4,365	4,000	-8.4	4,300	7.5
Apartments	23,930	12,869	13,240	18,200	37.5	18,500	1.6
Starts - Total	42,212	25,949	29,195	32,500	11.3	31,750	-2.3
Average Price ($):							
Single-Detached	540,560	582,123	606,617	634,000	4.5	647,000	2.1
Median Price ($):							
Single-Detached	480,900	496,945	517,900	540,000	4.3	551,000	2.0
New Housing Price Index (1997=100) (Toronto-Oshawa)	3.5	-0.1	2.6	2.1		1.9	
Rental Market							
October Vacancy Rate (%)	2.0	3.1	2.1	2.0	-0.1	2.3	0.3
Two-bedroom Average Rent (October) ($)	1,095	1,096	1,123	1,134	-	1,163	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	2,893,500	2,853,100	2,919,400	2,978,000	2.0	3,031,000	1.8
Employment Growth (%)	2.0	-1.4	2.3	2.0	-	1.8	-
Unemployment rate (%)	6.9	9.4	9.1	7.8	-	7.7	-
Net Migration	64,891	63,757	72,295	78,000	7.9	79,000	1.3

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Oshawa CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	8,797	9,328	9,479	9,080	-4.2	9,280	2.2
MLS® New Listings	18,574	15,113	16,492	15,600	-5.4	16,000	2.6
MLS® Average Price ($)	272,429	278,505	299,983	305,000	1.7	309,400	1.4
New Home Market							
Starts:							
Single-Detached	1,500	836	1,540	1,300	-15.6	1,480	13.8
Multiples	487	144	348	340	-2.3	380	11.8
Starts - Total	1,987	980	1,888	1,640	-13.1	1,860	13.4
Rental Market							
October Vacancy Rate (%)	4.2	4.2	3.0	2.8	-0.2	3.0	0.2
Two-bedroom Average Rent (October) ($)	889	900	903	911	-	933	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	184,200	178,100	188,200	191,400	1.7	194,100	1.4
Employment Growth (%)	2.7	-3.3	5.7	1.7	-	1.4	-
Unemployment rate (%)	7.2	9.0	10.0	8.9	-	8.6	-

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Toronto Real Estate Board, Statistics Canada (CANSIM)

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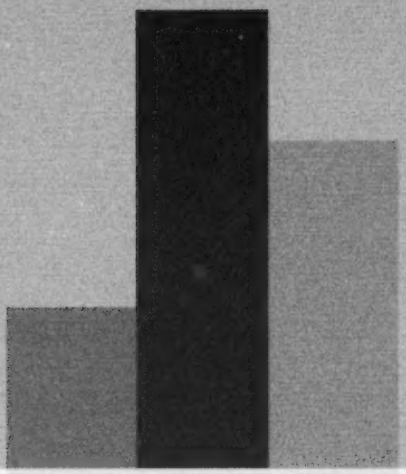

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